SASKATCHEWAN MINERALS

1987 ANNUAL REPORT

88-03460/

ANNUAL REPORT

of

SASKATCHEWAN MINERALS

OF THE

PROVINCE OF SASKATCHEWAN

for the

Year Ending December 31, 1987

88-03460/

Saskatchewan Minerals

P.O. Box 120
Chaplin, Saskatchewan
Canada S0H 0V0

PH: (306) 395-2561
Telex: 071-29138

08 March 1988

To His Honour
The Honourable Frederick W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the Annual Report of Saskatchewan Minerals for the year ending December 31, 1987 including the financial statements therefore, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporations Act, 1978.

I have the honour to be, Sir,

Your obedient servant,

Patricia Smith
Minister Responsible
Chairman of the Board
Saskatchewan Minerals

BOARD OF DIRECTORS

The Honourable Patricia Smith
Chairman of the Board
Regina, Saskatchewan

Ian Disbery
Corporate Secretary
Crown Management Board
Regina, Saskatchewan

Robert Berry
Central Butte, Saskatchewan

Richard Gleim
Chaplin, Saskatchewan

Martin Chabot
Zenon Park, Saskatchewan

Merlin Materi
Fox Valley, Saskatchewan

CORPORATE MANAGEMENT

Leonard A. Mason	-	President
Terrence D. Lavineway	-	Director of Marketing
Gilbert M. Krantz	-	Director of Operations

SASKATCHEWAN MINERALS
ANNUAL REPORT
1987

This past year has been one of the more challenging years in our recent history. Sales revenues were projected to be 31% lower than in 1986 and it was essential that we re-evaluate our entire operation in order to remain competitive. Following a review of our various operating alternatives and scrutinizing our operating procedures and costs we carried out a general restructuring and downsizing in the Corporation. This resulted in a loss of 47 full time employees from the Sodium Sulphate Division and was carried out throughout the year by attrition, early retirement, abolishment of positions and layoffs.

The sodium sulphate market remained weak throughout this past year with continued downward pressure on prices.

The actual results for 1987 were considerably better than forecast because of continued aggressive marketing and cost controls. Sales revenue for the year declined from $19,801,814 in 1986 to $17,467,811, a decline of 11.8% while costs were reduced from $18,855,987 in 1986 to $16,858,635, a reduction of 10.6%. The profit for the year of $609,176 greatly exceeds our original projections but is still $336,651 lower than in 1986, a decrease of 35.6%.

Marketing and Sales

Sodium sulphate sales continued to decrease during the year resulting in an overall drop in tonnage of 8.2% compared to 1986. Sales in Canada were improved 14.5% over 1986 because of increased tonnage to the pulp & paper and glass industries, even though overall consumption in Canada declined further during 1987 with alternative products displacing saltcake. Demand in the Canadian detergent industry declined also during 1987. However, in spite of less consumption in Canada, our market share was improved.

Sales into the United States were down 31.4% from the 1986 levels. Consumption in the U.S. glass industry declined, but demand in the pulp & paper industry as well as the detergent industry remained constant. Reformulations of powder detergents as well as increases in market share by liquid detergents continued throughout 1987.

Sales to overseas points improved over 1986, with two large shipments in the last half of 1987 giving us a record year in total off-shore shipments. We sincerely hope to continue to serve this market during 1988 and in the future.

The oversupply of sodium sulphate in North America continued in 1987, and, will carry on into 1988, but as the economy weakens less by-product material will be available, and natural producers such as ourselves will benefit. One Canadian by-product producer

has tentatively shut down and this should improve sales in 1988.

During 1987 Saskatchewan Minerals' sales to the major industrial segments, versus 1986 were as follows:

Pulp & Paper Industry	---	increased 47.9%
Detergent Industry	---	decreased 26.2%
Glass Industry	---	increased 17.4%

Expected freight rate increases in the United States did not materialize during 1987 mainly because of the deregulated climate in that country. However, the Canadian railways took their usual 4% increase on freight rates January 1, 1987. Canadian railways are not keeping in tune with market conditions of the products they move, but, we remain hopeful now that the new National Transportation Act is in place deregulating this industry, the Canadian railways will become more market conscious and very selective with their freight rate increases.

1988 will see a slight improvement in sales over 1987 levels in spite of the oversupply situation as the overall market appears to be stabilizing.

Production

Due to continuing depressed market conditions the Sybouts plant remained closed during the year. The demolition of the Bishopric plant continued during the year with completion expected in 1988.

The Chaplin plant production was up 61% over 1986. This was a result of increased sales from this plant in both saltcake and detergent grade material. This was the first year that we had the capability of producing detergent grade material from this plant throughout the entire year as we just completed the building housing our settler system. Two large overseas shipments, one detergent, the other saltcake, accounted for approximately half the increase in production. The detergent shipment was loaded direct from production, the saltcake shipment was from storage and production. A shortage of spring run-off water and summer rains resulted in limited brining, consequently, the winter harvest was 25% less than average. We will be constructing a ditchline on the Chaplin Creek in early 1988 following project approval by the Saskatchewan Water Corporation which will better utilize available water in that system.

Sales from the Ingebrigt plant in 1987 did not require the plant to operate on a four-shift basis, so production was down 42% compared with 1986. This rate of production was met by utilizing three shifts on a reduced schedule. The dredge was only operated 40 days during the year but was able to produce

material for operations and to provide brine in the reservoir to assure an average winter harvest. The dredge was operated with plant personnel during production shutdowns.

There was more than adequate supplies of raw material at both plants to meet the projected sales for 1988.

As a result of the announcement by Saskatchewan Energy & Mines on Phase II of Natural Gas deregulation, negotiations were undertaken with numerous private gas producers to supply 65% of our requirements. It is expected agreements will be signed early in 1988.

Peat Moss Division

1987 was a good year for production of material and harvest of raw moss. Production was up 24% over 1986 and harvest of raw moss up 10%. Weather conditions were very good during the late summer for harvesting. We were able to use all plant facilities to the best advantage on both double and single shifts. There is an excellent carryover of raw moss and together with the bagged inventory will be adequate to meet our projected sales.

Engineering & Research

With the retirement of the Director, G. F. Miller in September 1987, this Division was folded into the Operating

Division. Design was completed on a pilot scale heat recovery system and construction started with completion expected in 1988. This is to be utilized at the Ingebrigt plant. A carbon filtration unit was designed and construction started in 1987 for further purification of the detergent material produced at the Chaplin plant.

Personnel

As of December 31, 1987, Saskatchewan Minerals employed 132 people, a reduction of 45 positions for the year. We had reduced two positions at our Peat Moss Operation at Carrot River and the remaining reductions took place at our Sodium Sulphate plants and at Head Office. These reductions were necessary for us to remain a viable Corporation.

The employees in our Sodium Sulphate Division who are represented by the Energy and Chemical Workers Union Local 678 were in the second year of a three-year Agreement which expires April 30, 1989.

The employees in our Peat Moss Division who are represented by the International Woodworkers of America Local 1-184 negotiated a one-year Agreement which will expire on May 31, 1988.

In December of 1987 we activated the Apprenticship Program in the Peat Moss Division and indentured one employee into the Industrial Mechanics Trade.

Our Safety Programs did not fair as well as we would have liked in 1987. The total number of lost time accidents in our Corporation increased to 16 for the year, but we are committed to providing a safe environment for safety- minded employees.

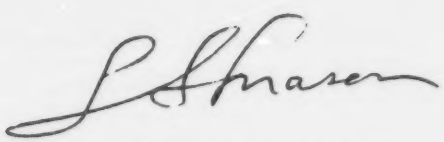
General Statistics

Saskatchewan Minerals has made the following direct contribution to the Saskatchewan economy:

	During 1987
Salaries and Wages	$ 4,717,168
Grants in Lieu of Taxes	$ 216,732
Royalties	$ 548,121
Dividends paid to to Crown Investments Corporation	Nil

Through this year of change we appreciate the guidance and encouragement provided by the Board of Directors. I wish to thank them for their confidence by appointing me Acting General Manager in January of this year and later President of the Corporation following the retirement of Mr. Mills in July. Mr. Mills had served our Corporation for 32 years and as General

Manager since 1965. All of our employees have been faced with new challenges in this past year but with their expertise and continued dedication we have met those challenges so that we can better serve our customers in the future.



L. A. Mason, B.Comm.
President

Burroughs, Weber & Partners

Chartered Accountants

R.J. Weber, B. Comm., F.C.A.
E.G. Gross, C.A.
A.E. Downs, B. Comm., C.A.
E.K. Heppner, C.A.
A.E. Lightfoot, B. Comm., C.A.
R.B. Kane, B. Comm., C.A.
G.K. Braaten, B. Comm., C.A.

140 - 2nd Avenue N.W.
P.O. Box 1267
Swift Current, Saskatchewan
S9H 3X4

Telephone 773-8375
Area Code 306

AUDITORS' REPORT

To the Members of the Legislative Assembly
Of the Province of Saskatchewan

We have examined the Statement of Financial Position of Saskatchewan Minerals as at December 31, 1987 and the Statements of Income and Retained Earnings and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Burroughs, Weber, & Partners
Chartered Accountants

February 4, 1988

SASKATCHEWAN MINERALS

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	1987	1986
ASSETS		
CURRENT ASSETS		
Cash	$ 1,231,628	$ -
Accounts receivable	3,084,005	2,899,475
Inventories [Note 3]	3,880,233	4,202,963
Prepaid expenses	147,204	14,106
	8,343,070	7,116,544
PROPERTY, PLANT AND EQUIPMENT [Note 4]	12,051,079	13,203,633
DEFERRED CHARGES, NET OF AMORTIZATION	6,127	44,156
	$20,400,276	$20,364,333
LIABILITIES AND PROVINCE'S EQUITY		
CURRENT LIABILITIES		
Bank overdraft	$ -	$ 252,318
Accounts payable and accrued liabilities	1,938,421	1,536,423
Due to Crown Investments Corporation [Note 5]	5,000,000	722,913
Current portion of long-term debt [Note 6]	3,000,000	5,000,000
	9,938,421	7,511,654
LONG-TERM DEBT [Note 6]	-	3,000,000
PROVINCE OF SASKATCHEWAN'S EQUITY		
Advances [Note 7]	3,400,000	3,400,000
Retained earnings	7,061,855	6,452,679
	10,461,855	9,852,679
	$20,400,276	$20,364,333

See accompanying notes

SASKATCHEWAN MINERALS

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	1987	1986
REVENUE		
Sales of product	$17,322,431	$19,782,183
Other	145,380	19,631
	17,467,811	19,801,814
EXPENSES		
Operating costs	12,053,618	13,743,978
Selling and administrative	2,512,384	2,763,998
Depreciation and amortization	1,337,285	1,296,651
Interest [Note 8]	955,348	1,051,360
	16,858,635	18,855,987
NET EARNINGS	609,176	945,827
RETAINED EARNINGS, BEGINNING OF YEAR	6,452,679	5,979,765
	7,061,855	6,925,592
DIVIDENDS TO CROWN INVESTMENTS CORPORATION	-	472,913
RETAINED EARNINGS, END OF YEAR	$ 7,061,855	$ 6,452,679

See accompanying notes

SASKATCHEWAN MINERALS

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31

	1987	1986
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 609,176	$ 945,827
Charges (credits) to operations not involving cash		
Depreciation	1,299,256	1,353,457
Amortization of deferred charges	38,029	77,911
(Gain) loss on sale of fixed assets	(5,592)	65,977
	1,940,869	2,443,172
Net change in non-cash working capital balances related to operations	414,704	(1,129,462)
Cash provided by operating activities	2,355,573	1,313,710
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(154,306)	(462,266)
Proceeds from disposal of property, plant and equipment	5,592	65,614
Cash used in investment activities	(148,714)	(396,652)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Repayment of long-term debt	(5,000,000)	(540,000)
Payment of dividends	(472,913)	-
Loans from Crown Investments Corporation	5,000,000	250,000
Repayment of loans from Crown Investments Corporation	(250,000)	(1,900,000)
Cash used in financing activities	(722,913)	(2,190,000)
INCREASE (DECREASE) IN CASH DURING THE YEAR	1,483,946	(1,272,942)
CASH POSITION AT BEGINNING OF YEAR	(252,318)	1,020,624
CASH POSITION AT END OF YEAR	$ 1,231,628	$ (252,318)

See accompanying notes

SASKATCHEWAN MINERALS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1987

1. SUMMARY OF ACCOUNTING POLICIES

The following summary of significant accounting policies contains a description of the accounting methods and practices that have an important impact on the corporation's financial statements.

(a) Inventories

Finished product and raw material inventory are valued at the lower of average cost for the year and net realizable value. Inventories of materials and supplies are valued at the lower of cost and replacement cost.

(b) Deferred Charges

These items represent loan charges which will be amortized over the term of the loans.

(c) Property, Plant and Equipment

Property, plant and equipment are recorded at cost.

The costs of maintenance, repairs and minor renewal or replacements are charged to operations as they arise. The costs of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. On retirement or disposal of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of operations.

(d) Depreciation and Amortization

Depreciation is designed to amortize the fixed assets over their estimated useful lives on a straight line basis over the following periods:

Buildings	10 to 30 years
Machinery and equipment	5 to 20 years
Ditch lines, reservoirs, pipelines, spur tracks and platforms	10 to 20 years

Bog development, mining lease improvements costs, and sodium sulphate deposits at the Sybouts Plant are amortized on the unit of production method over the estimated useful productive life of the asset.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Foreign Exchange Translation

Foreign currency transactions are translated to Canadian dollars at the exchange rate in effect for that day.

Foreign currency monetary items are translated to Canadian dollars at the exchange rate in effect at the year end.

2. STATUS OF SASKATCHEWAN MINERALS

Saskatchewan Minerals was established by Order-in-Council 724 in 1945 with numerous amendments subsequent to that date. The corporation continues under the provisions of The Crown Corporations Act, 1978. The accounts of the corporation are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan.

3. INVENTORIES

The inventories of the corporation are comprised of:

	1987	1986
Finished product	$ 1,250,991	$ 1,450,100
Raw material	1,925,912	2,066,985
Material and supplies	703,330	685,878
	$ 3,880,233	$ 4,202,963

4. PROPERTY, PLANT AND EQUIPMENT

	- 1 9 8 7 -			1986
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 29,325	$ -	$ 29,325	$ 29,325
Buildings	5,772,819	2,862,624	2,910,195	3,083,532
Machinery and equipment	18,100,473	10,164,102	7,936,371	8,830,493
Ditch lines, reservoirs, pipelines, spur tracks, bog development, platforms and other	2,157,808	982,620	1,175,188	1,260,283
	$26,060,425	$14,009,346	$12,051,079	$13,203,633

SASKATCHEWAN MINERALS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1987

5. DUE TO CROWN INVESTMENTS CORPORATION

	1987	1986
Dividend payable	$ -	$ 472,913
Loan payable	5,000,000	250,000
	$ 5,000,000	$ 722,913

The loan payable to Crown Investments Corporation bears interest at 8.8% and is due on March 31, 1988.

6. LONG-TERM DEBT

	1987	1986
Crown Investments Corporation loan #1	$ 3,000,000	$ 3,000,000
#2	-	5,000,000
	3,000,000	8,000,000
Less amount due within one year	3,000,000	5,000,000
	$ -	$ 3,000,000

The Crown Investments Corporation loan #1 is due December 21, 1988 with interest payable semi-annually at 10 3/4% per year.

7. ADVANCES FROM CROWN INVESTMENTS CORPORATION

These advances represent the net capital contributions by Crown Investments Corporation of Saskatchewan to the Corporation since its inception. These advances are repayable at the discretion of Crown Investments Corporation of Saskatchewan and do not bear interest.

8. INTEREST EXPENSE

	1987	1986
Long-term	$ 906,781	$ 1,036,888
Bank charges and demand loan	48,567	14,472
	$ 955,348	$ 1,051,360

SASKATCHEWAN MINERALS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1987

9. DIRECTORS AND SENIOR OFFICERS

The corporation's five directors received from Saskatchewan Minerals, in aggregate, $4,050 during 1987 (five directors 1986 - $1,150).

The five senior officers received, in aggregate, $283,719 in salaries for 1987 (five officers 1986 - $313,107).

10. RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

11. CONTINGENCIES

The corporation is the defendant to one unresolved statement of claim. Management is of the opinion, as confirmed by legal counsel, that the claim can be successfully defended and accordingly no provisions have been made in the accounts. Any costs incurred will be accounted for in the period in which the claims are resolved.

12. PENSION

As substantially all the Corporation's employees participate in a defined contribution pension plan, the Corporation's obligations are limited to making regular payments into the plan to match the required amounts contributed by the employees.